

Message Text

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ACTION EUR-12

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PASS TREASURY AND FEDERAL RESERVE; GENEVA FOR MTN
DELEGATION

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: (A) STATE 021527; PARIS 03448, FEBRUARY 7, 1975

1. SUMMARY. AVAILABLE EVIDENCE GIVES AMBIGUOUS READING
OF CURRENT STATE OF FRANCE'S ECONOMIC MALAISE: LABOR-
MARKET INDICATORS POINT TO SOME TEMPERING IN UNEMPLOY-
MENT SITUATION, WHILE TRADE ACCOUNT MAY BE LEVELING
OFF SOMEWHERE NEAR EQUILIBRIUM - THANKS IN LARGE PART
TO FLAGGING IMPORT DEMAND INDUCED BY ECONOMIC SLOWDOWN.
BUSINESS OPINION REPORTEDLY LESS GLOOMY THAN DURING

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AUTUMN LOW-POINT; BUT REVIVAL IN DOMESTIC DEMAND HAS

YET TO MATERIALIZE AND THUS TO HALT DECLINE IN INDUSTRIAL OUTPUT. GROWTH IN MONEY SUPPLY CONTINUED TO OUT-PACE RATE OF PRICE INFLATION THROUGH NOVEMBER 1974. END SUMMARY.

2. PATRONAT SEES SOME LEVELING IN BUSINESS DOWNTURN -

IN ITS FEBRUARY REPORT ON ECONOMIC SITUATION, FRENCH PATRONAT (ROUGHLY EQUIVALENT TO NAM) PERCEIVED IMPROVEMENT IN OVERALL BUSINESS CLIMATE RELATIVE TO NOVEMBER, WHEN POSTAL STRIKE HAD EXACERBATED ECONOMIC DOWNTURN; REPORT NONETHELESS CONCLUDES THAT END TO DECLINE IN INDUSTRIAL ACTIVITY NOT YET IN SIGHT.

ACCORDING TO PATRONAT, CURRENT ECONOMIC SITUATION DOMINATED BY "GAME OF INVENTORIES" - CONTINUED DRAWING-DOWN OF STOCKS AT PRODUCTION STAGE COMBINED WITH BUILD-UP OF FINISHED GOODS - AND ANY GENUINE REVIVAL OF ACTIVITY IMPOSSIBLE AS LONG AS SUCH MOVEMENT CONTINUES. INDUSTRIAL PRODUCTION SAID TO HAVE DECLINED FURTHER IN DECEMBER, AGGRAVATED BY HOLIDAY CLOSINGS AT YEAR'S END.

SPEAKING ON FEBRUARY 8, PATRONAT CHIEF FRANCOIS CEYRAC CHARACTERIZED BUSINESS CLIMATE IN JANUARY AS "DISTURBING" AND PREDICTED WORSENING THROUGH MARCH OR APRIL. REITERATING HIS PREVIOUS STATEMENTS, CEYRAC SAID UPTURN MUST AWAIT GOV ACTION TO RESTIMULATE ECONOMY.

3. DEMAND (LARGELY FOREIGN) PICKS UP BUT PRODUCTION LAGS-

IN CUSTOMARY FASHION, BANK OF FRANCE SOMEWHAT MORE UPBEAT THAN PATRONAT IN ITS LATEST ASSESSMENT OF FRENCH ECONOMIC SITUATION. BANK'S SURVEY OF ECONOMY, CONDUCTED DURING JANUARY, REPORTS AMPLE FOREIGN ORDERS AND "SOME STRENGTHENING" IN DOMESTIC DEMAND; LEVEL OF BUSINESS EXPECTED TO REACH SOME "FLOOR" - IN NEIGHBORHOOD OF CURRENT LEVEL - DURING NEXT MONTH OR SO, BUT UNCLASSIFIED

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NO MARKED REVIVAL IN DOMESTIC DEMAND EXPECTED BEFORE SPRING.

BANK REPORT DRAWS ENCOURAGEMENT FROM FACT THAT BUSINESS CLIMATE HAS NOT WORSENERED TO EXTENT ANTICIPATED DURING CLOSING MONTHS OF 1974. DESPITE ADDITIONAL TEMPORARY FACTORY SHUTDOWNS ANNOUNCED FOR FEBRUARY, INDUSTRIALISTS REPORTEDLY VIEW AS UNLIKELY ANY SHARP

DETERIORATION IN ECONOMIC OUTLOOK OVER COMING MONTHS.

AMONG SECTORS, PRODUCERS OF INTERMEDIATE GOODS
EXPECT TO BE COMPELLED TO CUT BACK OUTPUT FURTHER
BEFORE REVIVAL IN DEMAND MATERIALIZES. ORDERS CONTINUE
TO FALL OFF IN CAPITAL-EQUIPMENT SECTOR BUT IN SEVERAL
BRANCHES BUSINESS APPEARS ASSURED AT PRESENT LEVELS FOR
SOME MONTHS, AND EXPORT PROSPECTS CONSIDERED
"ENCOURAGING." OUTLOOK FOR CONSUMER-GOODS SECTOR

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REMAINS CLOUDY - LINKED TO REACTIONS OF HOUSEHOLDS TO
LABOR-MARKET SITUATION - BUT SPRING REVIVAL IN DEMAND
ANTICIPATED "WITH RELATIVE CONFIDENCE."

DESPITE GENERALLY OPTIMISTIC TONE OF ITS SURVEY, HOWEVER, BANK REPORT LESS ROSY WITH REGARD TO OBJECTIVE EVIDENCE: UNFILLED ORDERS DECLINED ANEW IN JANUARY WHILE INVENTORIES OF FINISHED GOODS CONTINUED TO MOUNT; ON ACCOUNT OF LATTER, EFFECTS OF ANY PICKUP IN INTERNAL DEMAND DURING SPRING NOT EXPECTED TO WORK THROUGH TO PRODUCTION STAGE BEFORE SECOND HALF OF YEAR.

4. UNEMPLOYMENT UP TO 3.6 PERCENT IN JANUARY -

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THE NUMBER OF REGISTERED UNEMPLOYED (SEASONALLY ADJUSTED) ROSE TO 698,600 AT END OF JANUARY, REPRESENTING AN INCREASE OF 6 PERCENT OVER DECEMBER LEVEL AND 60 PERCENT OVER JANUARY 1974. ON BASIS OF AVAILABLE DATA, WE CALCULATE SEASONALLY-ADJUSTED UNEMPLOYMENT IN JANUARY AT ROUGHLY 3.6 PERCENT OF LABOR FORCE (SEE PARIS A-535 OF 1974 FOR METHODOLOGY.)

LABOR MARKET INDICATORS

(SEASONALLY ADJUSTED; IN THOUSANDS;
END-OF-MONTH)

AUG SEP OCT NOV DEC JAN

REGISTERED

UNEMPLOYED 464.4 498.5 558.3 629.3 660.0 698.6

UNFILLED

JOB OFFERS 207.6 179.5 124.1 132.7 144.4 153.9

EST. OVERALL

UNEMPLOYMENT

(AS PERCENT OF

LABOR FORCE) 2.4 2.6 2.9 3.3 3.4 3.6

AS IN DECEMBER, ADDITIONS TO UNEMPLOYMENT ROLLS IN JANUARY CONSIDERABLY LESS THAN 12 AND 13 PERCENT INCREASES DURING MONTHS OF OCTOBER AND NOVEMBER. FROM THREE-YEAR LOW IN UNFILLED JOB OFFERS RECORDED IN OCTOBER, VACANCIES INCREASED FOR THIRD STRAIGHT MONTH WITH 7 PERCENT INCREASE IN JANUARY TO 153,900 (SEASONALLY ADJUSTED). SOME OBSERVERS HAVE COMMENTED THAT SUCH A TREND IN UNFILLED JOB OFFERS FREQUENTLY FORESHADOWS DECLINE IN UNEMPLOYMENT.

5. TRADE ACCOUNT RETURNS TO DEFICIT -

FOLLOWING SURPLUS OF 403 MILLION FRANCS RECORDED
IN DECEMBER, FRENCH TRADE ACCOUNT REGISTERED 290 MILLION
FRANC DEFICIT IN JANUARY (SEASONALLY ADJUSTED, FOB-FOB).
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JANUARY DEFICIT ROUGHLY COMPARABLE TO NOVEMBER'S - WHICH
HAD BEEN LOWEST RECORDED UNTIL THEN IN 1974 - AND
REPRESENTED 98.5 PERCENT RATE OF EXPORT COVER.

SEASONALLY ADJUSTED EXPORTS DECLINED 1 PERCENT
FROM DECEMBER TO 19.2 BILLION FRANCS. IMPORTS WERE UP
3 PERCENT TO 19.5 BILLION FRANCS - THE FIRST SUCH
INCREASE IN SIX MONTHS. WHILE DOWNWARD TREND IN
IMPORTS DURING SECOND HALF 1974 GENERALLY LINKED TO
SLOWDOWN IN FRENCH ECONOMY, IT REMAINS TO BE SEEN
WHETHER JANUARY FIGURES REPRESENT GENUINE TURNING-POINT.
EXCEPT FOR DECEMBER, LEVEL OF IMPORTS IN JANUARY
LOWEST FOR ANY MONTH SINCE LAST MARCH.

FRENCH FOREIGN TRADE

(SEASONALLY ADJUSTED; IN BILLIONS
OF FRANCS; FOB-FOB)

	AUG	SEP	OCT	NOV	DEC	JAN
IMPORTS	21.4	20.3	19.9	19.6	19.0	19.5
EXPORTS	19.3	19.2	18.5	19.3	19.4	19.2
BALANCE	-2.1	-1.0	-1.5	-0.2	0.4	-0.3

NORBERT SEGARD' NEWLY PROMOTED TO RANK OF MINISTER
FOR FOREIGN TRADE, NOTED A "TENDENCY TOWARD RETURN TO

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EQUILIBRIUM" IN RECENT TRADE ACCOUNTS, AND GAVE SPECIAL PRAISE TO FRANCE'S CAPITAL-EQUIPMENT EXPORTS (WHICH, FROM DEFICIT POSITION ONE YEAR AGO, INCREASED 26 PERCENT TO FF 1 BILLION SURPLUS IN JANUARY).

6. FRENCH COMMODITY IMPORT BILL DROPS 3 PERCENT -

THE COST OF PRIMARY PRODUCTS IMPORTED BY FRANCE FELL 3 PERCENT IN JANUARY, CONTINUING DOWNWARD MOVEMENT IN PRICES UNBROKEN OVER PAST NINE MONTHS EXCEPT FOR SLIGHT INCREASE IN OCTOBER. OVERALL INSEE (NATIONAL STATISTICS INSTITUTE) PRICE INDEX FOR COMMODITIES IMPORTED BY FRANCE (BASE 1968 AS 100) DROPPED FROM 181.7 IN DECEMBER TO 176.5 IN JANUARY, THE LOWEST INDEX UNCLASSIFIED

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HAS BEEN IN 18 MONTHS. INDICES FOR INDUSTRIAL PRIMARY PRODUCTS AND PRIMARY FOODSTUFFS FELL 2 AND 4 PERCENT, RESPECTIVELY.

7. MONEY SUPPLY CONTINUES TO EXPAND -

UNADJUSTED MONEY SUPPLY, BROADLY DEFINED (M2), ROSE

TO 638.8 BILLION FRANCS BY END NOVEMBER 1974; CURRENCY AND DEMAND DEPOSITS (M1) TOTALED FF 353.5 BILLION, NEAR-MONIES AMOUNTED TO FF 285.3 BILLION.

SEASONALLY ADJUSTED FIGURES SHOW M1 AND NEAR-MONIES INCREASED DURING NOVEMBER BY 6 AND 1 PERCENT, RESPECTIVELY. AT 642.7 BILLION FRANCS, M2 HAD RISEN 4 PERCENT SINCE OCTOBER AND 16 PERCENT SINCE FIRST OF YEAR; OVER FIRST 11 MONTHS OF 1974, M2 THUS GREW AT 17 PERCENT ANNUAL RATE (COMPARED TO 15 PERCENT INCREASE OVER COURSE OF 1973).

UNADJUSTED DATA ON COMPOSITION OF MONEY SUPPLY BY SOURCE SHOWED CREDITS TO THE ECONOMY AT FF 546.8 BILLION (UP 1.8 PERCENT FROM OCTOBER), CLAIMS ON PUBLIC SECTOR AT FF 74.1 BILLION (UP 11.5 PERCENT), AND NET FOREIGN EXCHANGE RESERVES AT FF 36.5 BILLION (UNCHANGED).

8. SUDREAU COMMISSION RELEASES ITS REPORT -

THE COMMISSION CREATED LAST YEAR BY PRESIDENT GISCARD TO PROPOSE MEASURES FOR THE REFORM OF CORPORATE STRUCTURES ("SUDREAU COMMISSION") RELEASED ITS REPORT ON FEBRUARY 12. LABOR RELATIONS ASPECTS ARE DISCUSSED IN PARIS 4257 (UNCL.). RECOMMENDATIONS CONCERNING CORPORATE STRUCTURE INCLUDE:

GOVERNING BODIES - THE POSSIBILITY OF WORKER REPRESENTATIVES HOLDING 1/3 OF THE SEATS IN SUPERVISORY BOARDS IS INTRODUCED. ON THE MANAGEMENT SIDE, IT IS SUGGESTED THAT THE MANAGEMENT AND CONTROL FUNCTIONS, NOW HELD CUMULATIVELY BY "PRESIDENT/DIRECTORS-GENERAL" IN MOST FRENCH COMPANIES, BE CLEARLY SEPARATED. LIMITS ARE SUGGESTED ON EXECUTIVES' AGES AND TERMS OF OFFICE, UNCLASSIFIED

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AND ON MULTIPLE MANAGEMENT RESPONSIBILITIES.

STOCKHOLDERS - FIRMS WOULD BE OBLIGED TO IMPROVE THE INFORMATION THEY MAKE AVAILABLE TO EMPLOYEES AND STOCKHOLDERS, AND TO INCREASE THE VOICE OF "LONG-TERM STOCKHOLDERS" IN THE COMPANY. MEASURES SUCH AS TAX REFORM AND GREATER VARIETY OF STOCKHOLDING POSSIBILITIES ARE PROPOSED AS A MEANS OF INCREASING PUBLIC INTEREST IN CORPORATE EQUITIES.

NEW FORMS OF CORPORATIONS WERE PROPOSED, SUCH AS "CORPORATIONS WITHOUT CAPITAL" AND "CORPORATIONS WITH PARALLEL REPRESENTATION OF EMPLOYEES AND STOCKHOLDERS."

ALL OF THESE IDEAS ARE NOW SUBJECT TO SIX-WEEKS
OF "PUBLIC DEBATE" IN FRANCE, AT THE END OF WHICH AN
INTER-MINISTERIAL MEETING WILL DECIDE ON WHAT SPECIFIC
PROPOSALS SHOULD BE PUT BEFORE FALL SESSION OF PARLIAMENT
FOR ENACTMENT INTO LAW. WHILE GOVERNMENT ENJOYS LARGE
MAJORITY IN NATIONAL ASSEMBLY, RELATIVELY CONSERVATIVE
NATURE OF THAT MAJORITY SUGGESTS ANY RADICAL REFORMS
COULD ENCOUNTER HEAVY SLEDDING. PARLIAMENTARY FATE OF
ANTI-INFLATION LEVY IS INSTRUCTIVE IN THIS REGARD. OUR
CONCLUSION: THERE'S A LONG, LONG TRAIL AWINDING BEFORE
THESE DREAMS ALL COME TRUE.

9. OTHER REPORTS SUBMITTED DURING THE PERIOD -

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TELEGRAMS

3595 INTERNATIONAL BANK LENDING -
FRANCE FEBRUARY 11, 1975

3745 INTERNATIONAL BANK LENDING -
FRANCE FEBRUARY 12, 1975

4378 FINANCE MINISTER ON MONETARY
REFORM FEBRUARY 19, 1975

AIRGRAMS

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A-72 FRENCH FOREIGN EXCHANGE
HOLDINGS FEBRUARY 7, 1975

A-79 FRENCH RESERVES IN JANUARY
1975 FEBRUARY 12, 1975

A-84 FRENCH FOREIGN EXCHANGE
HOLDINGS FEBRUARY 14, 1975
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